International Efforts to Liberalize FDI

• “Problem” policies:
  – local content requirements
  – export performance requirements
  – foreign exchange restrictions (restrictions on profit and capital repatriation)
  – technology transfer
  – employment requirements
  – equity restrictions (foreigners allowed to own only so much--49%).
  – absence of dispute settlement mechanism like WTO’s
From the “Code of Conduct” to the MAI

• **Code of Conduct**: Since 1970s, rich countries (OECD) operated under a code grounded in principal of national treatment

• **Uruguay Rd and TRIMs**: 1994, national treatment norm extended to include poor nations. However, limited progress in many areas.

• **Multilateral Agreement in Investment (MAI)**
  - Between 1995-99, rich countries try (but fail) to develop a comprehensive agreement on FDI
Origins of the MAI

• **Institutional Considerations**: MAI a stand-alone agreement (outside of WTO) among subset of nations (OECD)

• **Institutional Advantages**
  – Small group setting (similar, like-minded countries)
  – Amenable to major liberalization (no poor countries to mollify).

• **Institutional Disadvantages**
  – Limited possibility of reciprocity (trading of concessions).
Why did the MAI Fail?

1. Cross-national differences in goals.
   - Helm’s Burton
   - “cultural” investments
   * Few possibilities for concession trading (absence of reciprocity).

2. Opposition labor/environmental groups
   - Strong anti-FDI opposition from labor/enviro
   - Weak pro-FDI lobbying from Business

*** (1) is an international argument while (2) is domestic-societal***
Evaluating the claims of Labor Groups

- Does outward FDI “export jobs”?
  - Answer: On net, no, but some jobs are lost (low skilled sector) while others are created (in high skilled sector).

- Does outward FDI lower wages at home?
  - Answer: On net, no, but some wages rise and some fall (Stolper-Samuelson works here too).

- Does outward FDI reduce worker bargaining power?
  - Answer: Probably. Firms can threatened to move abroad is labor unions don’t relent.